



DEPARTMENT OF  
**FINANCE**

GRAY DAVIS, GOVERNOR

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November 2, 2000

Ms. Jane I. Henderson, Ph.D., Executive Director  
California Children and Families Commission  
501 J Street, Suite 530  
Sacramento, CA 95814

Dear Dr. Henderson:

**FINAL AUDIT REPORT ON THE CHILDREN AND FAMILIES TRUST FUND AND RELATED FUNDS**

Enclosed is the final report on our financial statement and performance audit of the California Children and Families Commission. Your written response is included in this report. Our audit was performed under interagency agreement CCFC-6817, between the California Children and Families Commission and the Department of Finance.

If you have any questions or comments regarding this report, please contact Janet I. Rosman, Manager, or Susan M. Botkin, Supervisor, at (916) 322-2985.

Sincerely,

Samuel E. Hull, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Mr. Joseph Munso, Chief Deputy Director, Children and Families Commission  
Mr. Brian Hobson, Chief, Administrative Division, Children and Families Commission

ICC: HULL, CLOSE, ROSMAN, BOTKIN, PARMELEE, FILE

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# A F<sub>INANCIAL</sub> S<sub>TATEMENT</sub> AND P<sub>ERFORMANCE</sub> A<sub>UDIT</sub>

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## California C<sub>hildren</sub> and F<sub>amilies</sub> C<sub>ommission</sub> C<sub>hildren</sub> and F<sub>amilies</sub> T<sub>rust</sub> F<sub>und</sub> and R<sub>elated</sub> F<sub>unds</sub>

Prepared By:  
Office of S<sub>tate</sub> A<sub>udits</sub> and E<sub>valuations</sub>  
California D<sub>epartment</sub> of F<sub>inance</sub>

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The Department of Finance, Office of State Audits and Evaluations, performed this audit under Health and Safety Code Section 130150. The purpose was to audit the Statements of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis of the Children and Families Trust Fund and related funds (Funds) for the 18 months ended June 30, 2000, and to complete a performance audit of the California Children and Families Commission.

The financial audit objectives were to:

- Express an opinion on the financial statements based on our audit, conducted in accordance with standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.
- Verify that the financial statements were prepared in conformity with the accounting practices as prescribed by the State of California, which comprise a comprehensive basis of accounting other than generally accepted accounting principles.
- As necessary, report on internal control weaknesses and provide recommendations for improving internal control over the Funds operations.
- Report whether the California Children and Families Commission was in compliance with the applicable financial portions of Sections 130100 through 130155 of the Health and Safety Code.

The performance audit objectives were to:

- Audit the California Children and Families Commission's implementation and performance of its respective functions.
- Determine the progress toward, and the achievement of program goal and objectives, and the measurement of specific outcomes through appropriate reliable indicators.
- Report on the California Children and Families Commission compliance with the applicable performance portions of the Health and Safety Code Sections 130100 through 130155.
- As necessary, make recommendations based on our audit results.

This report is a public record. Requests for copies should be made to the California Children and Families Commission.

**STAFF:**

Janet I. Rosman, CPA  
Manager

Susan M. Botkin, CGFM  
Supervisor

Frances Parmelee, CPA  
Barry Ivy  
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Kiran Rai

## INTRODUCTION

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Proposition 10 was passed by the voters of the State of California on November 3, 1998. It funds early childhood development programs from revenues generated by increases in the State excise tax on cigarettes and other tobacco products. These programs are either provided by the State California Children and Families Commission (Commission) or the local county commissions. When Proposition 10 became law on January 1, 1999, the State collected: 1) a surcharge of 50 cents for every cigarette pack distributed, and 2) an additional excise tax on other tobacco products. Upon passage, the California Children and Families Trust Fund and related funds (Funds) and Health and Safety Code Sections 130100-130155 were established. The Health and Safety Code is cited as the California Children and Families Act of 1998 (Act).

The Act's intent is to provide, on a community-by-community basis, a comprehensive, integrated, and collaborative system of early childhood development services for all children prenatal to five years of age. The Act establishes that 80 percent of total revenues are to be allocated to county commissions based on a percentage of the number of live births recorded in the relevant county in proportion to the entire number of live births recorded in California. This portion of the revenue is deposited into Fund 0585. The remaining 20 percent is distributed to the Commission for allocation to six separate funds as follows:

- Fund 0631 - Mass Media (6%)
- Fund 0634 - Education (5%)
- Fund 0636 - Child Care (3%)
- Fund 0637 - Research and Development (3%)
- Fund 0638 - Administration (1%)
- Fund 0639 - Unallocated (2%)

The role of the Commission is to: (1) oversee and support the county commissions' efforts through services, programs, and funding so that each county commission is achieving its goals and objectives; (2) distribute monies to county commissions in a timely and equitable manner; and (3) perform the functions as set forth by the Act.

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SECTION I  
A FINANCIAL STATEMENT AUDIT

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California Children and Families Commission  
Children and Families Trust Fund  
and Related Funds

For the 18 Months Ended  
June 30, 2000

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## INDEPENDENT AUDITOR'S REPORT

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Ms. Jane I. Henderson, Ph.D., Executive Director  
California Children and Families Commission  
501 J Street, Suite 530  
Sacramento, CA 95814

We have audited the accompanying Statements of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis of the Children and Families Trust Fund and related funds (Funds), for the period from inception (January 1, 1999) to June 30, 2000. These financial statements are the responsibility of the California Children and Families Commission's (Commission) management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared in conformity with the accounting practices as prescribed by the State of California, which comprise a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Statements of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis presents fairly, in all material respects, the results of the operations of the Commission, for the period ended June 30, 2000, in conformity with the basis of accounting described in Note 2 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2000, on our consideration of the Commission's internal control over the Children and Families Trust Fund and the related Funds and our tests of its compliance with applicable laws and regulations. In considering the results of the audit, the report should be read along with the auditor's report on the financial statements.



This report is intended solely for the information and use of the Commission, management, and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Samuel E. Hull, CPA  
Chief, Office of State Audits and Evaluations

October 6, 2000

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-STATUTORY BASIS

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**California Children and Families Commission  
Children and Families Trust Fund (0623)  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance-Statutory Basis  
For the 18 Months Ended June 30, 2000**

Revenues: (Note 3)

Cigarette Tax	\$ 1,078,879,212
Interest on Investments	5,231,407

Expenditures: (Note 4) (1,444,000)

Other Financing Uses:

Operating Transfers Out (Note 5) (1,082,666,619)

Excess of Revenue Over Expenditures and  
Other Financing Uses 0

Fund Balance, January 1, 1999 0

Fund Balance, June 30, 2000 \$ 0

The accompanying notes are an integral part of the financial statements.

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-STATUTORY BASIS

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**California Children and Families Commission  
Counties Children and Families Fund (0585)  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance-Statutory Basis  
For the 18 Months Ended June 30, 2000**

Revenue: (Note 3)

Interest on Investments	\$ 7,627,884
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Expenditures: (Note 4)	(764,976,362)
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Other Financing Sources:

Operating Transfers In (Note 5)	<u>856,053,295</u>
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Excess of Revenue and Other Financing Sources Over Expenditures	98,704,817
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Fund Balance, January 1, 1999	<u>0</u>
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Fund Balance, June 30, 2000	\$ <u>98,704,817</u>
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The accompanying notes are an integral part of the financial statements.

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-STATUTORY BASIS

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**California Children and Families Commission  
Mass Media Communications Fund (0631)  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance-Statutory Basis  
For the 18 Months Ended June 30, 2000**

Revenue: (Note 3)

Interest on Investments	\$ 2,097,141
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Expenditures: (Note 4)	(13,965,690)
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Other Financing Sources:

Operating Transfers In (Note 5)	<u>64,203,997</u>
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Excess of Revenue and Other Financing Sources Over Expenditures	52,335,448
--	------------

Fund Balance, January 1, 1999	<u>0</u>
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Fund Balance, June 30, 2000	<u>\$ 52,335,448</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE-STATUTORY BASIS

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**California Children and Families Commission  
Education Fund (0634)  
Statement of Revenues, Expenditures, and  
Changes In Fund Balance-Statutory Basis  
For the 18 Months Ended June 30, 2000**

Revenue: (Note 3)

Interest on Investments	\$ 1,360,206
-------------------------	--------------

Expenditures: (Note 4)	(8,035,407)
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Other Financing Sources:

Operating Transfers In (Note 5)	<u>53,503,331</u>
---------------------------------	-------------------

Excess of Revenue and Other Financing Sources Over Expenditures	46,828,130
--	------------

Fund Balance, January 1, 1999	<u>0</u>
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Fund Balance, June 30, 2000	\$ <u><u>46,828,130</u></u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE-STATUTORY BASIS

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**California Children and Families Commission  
Child Care Fund (0636)  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance-Statutory Basis  
For the 18 Months Ended June 30, 2000**

Revenue: (Note 3)

Interest on Investments	\$ 1,089,828
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Expenditures: (Note 4)	(135)
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Other Financing Sources:

Operating Transfers In (Note 5)	<u>32,101,999</u>
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Excess of Revenue and Other Financing Sources Over Expenditures	33,191,692
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Fund Balance, January 1, 1999	<u>0</u>
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Fund Balance, June 30, 2000	<u>\$ 33,191,692</u>
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The accompanying notes are an integral part of the financial statements.

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-STATUTORY BASIS

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**California Children and Families Commission  
Research and Development Fund (0637)  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance-Statutory Basis  
For the 18 Months Ended June 30, 2000**

Revenue: (Note 3)

Interest on Investments	\$ 1,089,487
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Expenditures: (Note 4)	(10,683)
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Other Financing Sources:

Operating Transfers In (Note 5)	<u>32,101,999</u>
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Excess of Revenue and Other Financing Sources Over Expenditures	33,180,803
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Fund Balance, January 1, 1999	<u>0</u>
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Fund Balance, June 30, 2000	<u>\$ 33,180,803</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE-STATUTORY BASIS

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**California Children and Families Commission  
Administration Fund (0638)  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance-Statutory Basis  
For the 18 Months Ended June 30, 2000**

Revenue: (Note 3)

Interest on Investments	\$ 319,449
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Expenditures: (Note 4)	(2,207,083)
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Other Financing Sources:

Operating Transfers In (Note 5)	<u>10,700,666</u>
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Excess of Revenue and Other Financing Sources Over Expenditures	8,813,032
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Fund Balance, January 1, 1999	<u>0</u>
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Fund Balance, June 30, 2000	<u>\$ 8,813,032</u>
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The accompanying notes are an integral part of the financial statements.



STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE-STATUTORY BASIS

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**California Children and Families Commission  
Unallocated Fund (0639)  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance-Statutory Basis  
For the 18 Months Ended June 30, 2000**

Revenue: (Note 3)

Interest on Investments	\$ 710,411
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Expenditures: (Note 4)	(597,992)
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Other Financing Sources:

Operating Transfers In (Note 5)	<u>21,401,332</u>
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Excess of Revenue and Other Financing Sources Over Expenditures	21,513,751
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Fund Balance, January 1, 1999	<u>0</u>
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Fund Balance, June 30, 2000	\$ <u>21,513,751</u>
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The accompanying notes are an integral part of the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## **California Children and Families Commission Children and Families Trust Fund and Related Funds For the 18 Months Ended June 30, 2000**

### **NOTE 1      Definition of Reporting Entity and Operations**

The Children and Families Trust Fund and related funds (Funds) were created by the California Children and Families Act of 1998 (Act). The Act is intended to promote, support, and improve the early development of children from the prenatal stage to five years of age. The programs authorized by this Act are administered by the California Children and Families Commission (Commission) and by county children and families commissions.

Effective January 1, 1999, Section 30131.2 of the Revenue and Taxation Code authorized the Fund 0623 (Fund) to collect: 1) 50 cents for each cigarette pack distributed, and 2) an additional surtax for other tobacco products. The surtax for other tobacco products was imposed upon every distributor, based on the wholesale cost of these products, at a tax rate determined annually by the State Board of Equalization. This tax rate is equivalent to the rate of tax imposed on cigarettes. The Board of Equalization collects and deposits the cigarette tax and the additional surtax for other tobacco products into the Fund. The Fund was established as a pass-through clearing account, and is a shared fund with the Commission. All Board of Equalization revenues and administrative expenditures related to Proposition 10 are funneled through this account. The remaining monies are then allocated to the county commissions through Fund 0585 and to the six related Commission Funds (Funds 0631, 0634, 0636, 0637, 0638, and 0639).

These monies are allocated and appropriated from Fund 0623: 80 percent to the county commissions and 20 percent to the Commission. Each county commission receives a portion of the monies equal to the percentage of the number of live births recorded in the relevant county (for the most recent reporting period) in proportion to the entire number of live births recorded in California (for the same period). Vital statistics compiled by the Department of Health Services are used.

The Commission's 20 percent is allocated to six different Funds:

Mass Media Communications Fund 0631 (6%)  
Education Fund 0634 (5%)  
Child Care Fund 0636 (3%)  
Research and Development Fund 0637 (3%)  
Administration Fund 0638 (1%)  
Unallocated Fund 0639 (2%)

Expenditures in the Funds must be spent in accordance with the provisions described in the Health and Safety Code, Section 130105 (d), subsections (A) through (F).

**NOTE 2      Summary of Significant Accounting Policies**

A.      Basis of Accounting

The accompanying financial statements have been prepared on the modified accrual basis of accounting. This method follows the statutory accounting guidelines prescribed by the State of California, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, revenues are recorded when they become measurable and available. Expenditures are recorded at the time the corresponding liability is incurred.

B.      Budgetary Accounting

The Act states that the Fund monies are continuously appropriated without regard to fiscal year.

C.      Fund Accounting

The Funds are classified as special revenue funds for financial purposes. A special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

**NOTE 3      Revenues**

Revenues consist of the cigarette tax collected on every cigarette pack and other tobacco products distributed. In addition, interest income earned in the Surplus Money Investment Fund is recognized as revenue. Interest income is earned by each individual Fund, and each also receives its applicable percentage of the interest earned in Fund 0623, the Children and Families Trust Fund.

**NOTE 4      Expenditures**

During the fiscal year, expenditures are recognized when claims to the State Controller are filed against the appropriations, or when monies are transferred to the State Payroll Revolving Fund for the payment of salaries and wages. Valid expense commitments, including encumbrances, are accrued as accounts payable at June 30.

**NOTE 5      Interfund Transfers**

Legally authorized transfers between State funds are reported on the Statements of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis as "Operating Transfers," and are accounted for as reductions or increases in the Fund Balance.

"Operating Transfers Out" of the Children and Families Trust Fund 0623 equals the sum of the statutorily required backfill of the Proposition 99 health-related education or research programs and the Breast Cancer Fund of \$12,600,000, and the "Operating Transfers In" for the six related Funds.

The backfill is required by the Health and Safety Code Section 130105 which states, "The State Board of Equalization shall determine within one year of the passage of this act the effect that additional taxes imposed on cigarettes and tobacco products by this act has on the consumption of cigarettes and tobacco products in this state. To the extent that a decrease in consumption is determined by the State Board of Equalization to be the direct result of additional taxes imposed by this act, the State Board of Equalization shall determine the fiscal effect the decrease in consumption has on the funding of any Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) State health-related education or research programs in effect as of November 1, 1998, and the Breast Cancer Fund programs that are funded by excise taxes on cigarettes and tobacco products. Funds shall be transferred from the California Children and Families Trust Fund to those affected programs as necessary to offset the revenue decrease directly resulting from the imposition of additional taxes by this act. Such reimbursements shall occur, and at such times, as determined necessary to further the intent of this subdivision."

**NOTE 6      Fund Balance**

Fund balance represents the difference between assets and liabilities of the Funds.

**NOTE 7      Gifts Received**

The Packard Foundation and the California Endowment donated money and other services to the Commission. Fiscal support was directly provided to the California Center for Health Improvement (CCHI) for the costs of establishing a technical center, administering conferences, and providing the annual salary of the Commission's communications director for one year. Although the Commission had administrative oversight, it did not have custody of the monies. Total consideration is valued at approximately \$1,820,000.

## **NOTE 8      Contingent Liabilities**

The Commission is involved in three refund actions that challenge the constitutionality of Proposition 10. The actions are:

- California Association of Retail Tobacconists (CART), et al. v. Board of Equalization, et al.
- Cigarettes Cheaper!, et al. v. Board of Equalization, et al.
- McLane/Suneast, et al. v. Board of Equalization, et al.

CART and Cigarettes Cheaper! allege that Proposition 10 violates 11 sections of the California Constitution and related provisions of the law. McLane/Suneast challenges only the “double tax” aspect of Proposition 10. Cigarettes Cheaper! and CART are seeking refunds of over \$4 million and \$5 million, respectively. McLane/Suneast’s claim is between \$500,000 and \$1 million. The State is vigorously contesting these cases. The State has transferred the case of Cigarettes Cheaper! from Sacramento and McLane/Suneast from Los Angeles to consolidate all three cases at the San Diego County Superior Court. Through a demurrer and motion for judgment on the pleadings, the State has eliminated 25 of 58 counts of the complaint. Due to the facial challenge, there is exposure as to the entire \$750 million per year collected under Proposition 10 together with interest, which could amount to several billions dollars by the time the case is finally resolved.

# REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Ms. Jane I. Henderson, Ph.D., Executive Director  
California Children and Families Commission  
501 J Street, Suite 530  
Sacramento, CA 95814

We have audited the Statements of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis of the Children and Families Trust Fund and related Funds (Funds), for the 18 months ended June 30, 2000, and have issued our report thereon dated October 6, 2000. We performed this audit under an interagency agreement with the California Children and Families Commission (Commission). We conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

## Compliance

As part of obtaining reasonable assurance about whether the Commission's Statements of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Statements of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the

Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing its assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described in the accompanying schedule of findings and recommendations are not material weaknesses.

This report is intended solely for the information and use of the Commission, management and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Samuel E. Hull, CPA  
Chief, Office of State Audits and Evaluations  
(916) 322-2985

October 6, 2000

# CALIFORNIA CHILDREN AND FAMILIES COMMISSION

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

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Our audit disclosed five reportable findings. Findings 99/00-1 and 99/00-2, involving internal control over financial reporting, are considered to be reportable conditions. Finding 99/00-4 involving the failure to follow requirements of the Act relates to compliance. Findings 99/00-3 and 99/00-5 relate to both internal control and compliance. We consider instances of noncompliance immaterial when the aggregate of the resulting misstatements are not material to the Statements of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis. All findings were considered immaterial. We also discussed, and did not report here, non-reportable findings with the Commission.

### **FINDING 99/00-1**

Condition:	We identified several instances of inadequate internal control over claim schedules. Of the 22 claim schedules tested, 5 or 22.7 percent contained errors relating to ineligible claims. The errors included excessive meal and lodging expenses, missing receipts, and unauthorized purchases. Because employees and a contractor received reimbursement for ineligible expenses, a potential risk exists that if continued, material ineligible reimbursements may occur.
Criteria:	Pursuant to the State Administrative Manual Section 8422.1, "The first step in the claim procedure is the determination that invoices are proper for submission to the State Controller's Office for payment." In addition, State Administrative Manual Section 8422.26, states to "properly identify the payment by reference to the invoice, agreement, or subvention program with a legal reference, if pertinent."
Recommendation:	Ensure claims are reviewed for eligibility and accuracy.

### **FINDING 99/00-2**

Condition:	The Commission incurred additional costs to process vendor payments, because of inadequate vendor payment process and oversight. Late penalty payments of \$6,773 were incurred for 6 vendor payments. Furthermore, of the 144 claim schedules processed, the Commission requested 23 expedited payments for an added service cost of \$865. The Commission's expedite payments process may result in the loss of potential revenue to the State due to the early disbursement of monies.
Criteria:	Per the State Administrative Manual Section 8474, "The California Prompt Payment Act, Government Code, Section 927 et seq., requires that effective January 1, 1999, state agencies automatically calculate and pay the appropriate late payment penalties (as specified in the State



Administrative Manual Section 8474.2) if they fail to pay properly submitted, undisputed invoices on the date required by the contract; or if a payment date is not specified in the contract, within 45 calendar days of receipt of the invoice.”

Furthermore, sound business practices dictate the processing of invoices in a timely manner, avoiding additional costs.

Recommendation: Ensure vendor payments are made promptly and the payment of penalties avoided.

### **FINDING 99/00-3**

Condition: The Commission did not capitalize the purchase of a copier. Furthermore, equipment purchases are not recorded timely in the property register nor promptly identified with State identification tags. State property not recorded in the accounting records results in the loss of accountability.

Criteria: Per the State Administrative Manual Section 8602, “State property is capitalized for accounting purposes when certain conditions are met. Capitalization means to record the property in the accounting records as assets. Tangible property must meet the following three requirements in order to meet the capitalization requirements:

- Have a normal useful life of at least one year,
- Have a unit acquisition cost of at least \$5,000, and
- Be used to conduct State business.”

In addition, the State Administrative Manual Sections 8650 and 8651 states all State property, regardless of whether capitalized or expended, will be controlled, identified, and tagged.

Recommendation: Assign a property identification tag to property when received and capitalize all tangible property meeting the three capitalization requirements.

### **FINDING 99/00-4**

Condition: The Commission did not receive Department of Finance approval to accept gifts contributed by the Packard Foundation and the California Endowment. The Commission received: (1) \$1.6 million in the form of special consultant services; (2) \$100,500 in funding to administer a statewide meeting and several additional conferences; and (3) \$119,500 for the services of a Communications Director for one year. Because proper approvals were not obtained, there was a loss of accountability.

Criteria: State Administrative Manual Section 8634 states that all departments authorized to accept gifts are required to comply with the Government Code Sections 8647 and 11005. Government Code Section 8647 states that whenever any person, firm, or corporation offers the department services, equipment, supplies, materials, or funds by way of gift, the State

may accept such an offer. The department may receive such services, equipment, supplies, materials, or funds on behalf of the department subject to the terms of the offer and subject to rules and regulations. Accordingly, the Government Code 11005 requires every department to secure the approval of the Department of Finance before a gift of personal property can be accepted.

Recommendation: Secure Department of Finance's approval for all gifts prior to receiving them.

#### **FINDING 99/00-5**

Condition: The Commission disbursed monies to a county that did not have an adopted strategic plan. County commissions are required to submit adopted strategic plans to the Commission prior to receiving payment. There are no control procedures verifying the county commissions have adopted the submitted strategic plans. Therefore, payment was erroneously made.

Criteria: The Health and Safety Code Sections 130140(d) and (d)(1) state after July 1, 2000, county commissions must submit adopted strategic plans to receive disbursements.

Recommendation: Enact procedures to insure the county commissions have adopted strategic plans submitted.

SECTION II  
AP<sub>ERFORMANCE</sub> AUDIT

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California Children and Families Commission  
Children and Families Trust Fund and Related Funds

For the Period January 1, 1999  
through October 6, 2000

## EXECUTIVE SUMMARY

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We conducted our performance audit in accordance with *Government Auditing Standards* (*Standards*) issued by the Comptroller General of the United States. The *Standards* include six specific areas of review. Because the Children and Families Commission (Commission) is still in the developmental stage, we were only able to apply three of the six required steps to the Commission's activities. We audited activities specifically performed by the Commission, not the county commissions. The objectives of this audit were to:

- Audit the Commission's implementation and performance of its respective functions.
- Determine the progress toward, and the achievement of the program goal and objectives, and the measurement of specific outcomes through appropriate reliable indicators.
- Report the Commission's compliance with the applicable performance portions of the Health and Safety Code Sections 130100 through 130155. This is cited as the Children and Families Act of 1998 (Act).
- As necessary, make recommendations based on our audit results.

Data or outcome indicators are not available and could not be analyzed or measured at this time since the goal and objectives of the Commission were not defined until July 20, 2000. Additionally, we can make no judgment about whether the Commission is accomplishing its goal and objectives efficiently because there are no statutorily or Commission developed timelines, or any specific and measurable targets associated with the delineated objectives.

As part of our audit, we prioritized core documents based on adoption dates. These core documents are:

- Health and Safety Code Sections 130100 through 130155 effective 1/1/99
- Adopted Bylaws dated 4/15/99
- *2000-2001 Fiscal Year Objectives and Priorities* adopted 7/20/00

The Bylaws are comprised of certain provisions of the Act as well as eight additional operational procedures. The *2000-2001 Fiscal Year Objectives and Priorities* describes the Commission's plan in achieving its ultimate goal: To support and promote children's healthy development and school readiness. This document also explains the 5 objectives and 29 actions to be taken by the Commission relating to the goal.

We concluded that the functions and other provisions of the Act were the first priorities. Secondly, the Commission's compliance with the Bylaws was considered. Lastly, the Objectives and Priorities of the Commission were assessed to evaluate the progress of and implementation towards the achievement of the goal and objectives. While each of these is inter-related, we initially applied our auditing procedures to each of the areas individually, without linking to other program activities, to determine compliance with laws and regulations.

We then analyzed the relationship between the various provisions of the Act, the Bylaws, and the goal and objectives.

The following are analyzed and discussed:

- Review of Functions—Health and Safety Code Section 130125
- Review of the Act (Excluding Health and Safety Code Section 130125) and Adopted Bylaws
- Review of Goal and Objectives

The Commission complied with five of its ten prescribed functions pursuant to the Health and Safety Code Section 130125. Because of the program's early developmental stage, the other five functions have not yet been fully completed.

Of the nine compliance issues identified in the other provisions of the Act (excluding the Health and Safety Code Section 130125), we determined that the Commission complied with six. Three had not been fully completed. Of the eight requirements stated in the Bylaws, the Commission satisfied all requirements. The Bylaws, in conjunction with the other provisions of the Act, aid the Commission in carrying out its required functions.

Of the 29 actions stated in the *2000-2001 Fiscal Year Objectives and Priorities*, we determined that all relate to an objective. The criterion used to measure the completion of each action was used only to measure the action's completion, not to measure the achievement of an objective. We concluded the following degree of completion using the "Measurement of Action Completion Table" on page 27:

- 2 actions are 90% complete
- 3 actions are 80% complete
- 8 actions are 70% complete
- 7 actions are 60% complete
- 1 action is 30% complete
- 8 actions are 10% complete

While not specific, measurable or time-based, the goal and objectives of the Commission are in line with the Act's provisions. The Commission continues to strive to perform effectively and efficiently by acting within the scope of its prescribed functions and stated objectives.

### Scope

Our audit consisted of activities specifically performed by the Commission. We did not address the performance and activities of the county commissions.

We conducted our audit in accordance with *Government Auditing Standards (Standards)* issued by the Comptroller General of the United States. These *Standards* define a performance audit as an objective and systematic examination of evidence for the purpose of providing an independent assessment of performance of a governmental organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Performance audits include economy and efficiency and program audits. We were hired to conduct a performance audit that includes determining:

1. Whether the entity has complied with significant laws and regulations applicable to the program.
2. Whether the entity is acquiring, protecting, and using its resources economically and efficiently.
3. The causes of inefficiencies or uneconomical practices.
4. The extent to which the desired results or benefits established by the legislature or other authorizing body is being achieved.
5. The effectiveness of organizations, programs, activities, or functions.
6. Whether the entity has complied with laws and regulations on matters of economy and efficiency.

We performed three of the six steps mentioned above. The following could not be determined: the extent to which the desired results or benefits are being achieved; the effectiveness of organizations, programs, activities, or functions; and whether the entity has complied with laws and regulations on matters of economy and efficiency. Specific outcomes could not be measured since the Commission's goal and objectives were not defined until July 20, 2000. Additionally, the stated objectives do not have specific, measurable, and time-based targets.

As a result, the scope of this report is limited to evaluating the status of the Commission in implementing the functions, other provisions of the Act and Bylaws, and its goal and objectives. The results of the other two steps are reported as part of the financial audit. Moreover, we make no judgment whether the Commission is accomplishing its goal and objectives in a timely manner because there are no statutorily or Commission developed timelines related to the goal and objectives.

In evaluating the Commission's performance status, we performed the following:

- Determined whether it was in compliance with the Health and Safety Code Sections 130100 through 130155 and its adopted Bylaws.
- Assessed the work performed by the Commission in attaining its goal and objectives.
- Considered the relationships among: a) its functions pursuant to the Health and Safety Code 130125; b) other provisions of the Health and Safety Code Sections 130100 through 130155 and Adopted Bylaws; and c) its goal and objectives.

## Methods

In conducting our audit, we reviewed various documents provided by the Commission. This included contracts, work plans, proposals, Commission meeting minutes, requests for applications, and requests for proposals. Material disseminated to the public, such as informational pamphlets and videotapes, was also read and reviewed. We interviewed fiscal and program staff to gain an understanding of the programs and functions. The Commission also provided us with the following core documents:

- Health and Safety Code Sections 130100 through 130155 effective 1/1/99
- Adopted Bylaws dated 4/15/99
- *2000-2001 Fiscal Year Objectives and Priorities* adopted 7/20/00

The Health and Safety Code Sections 130100 through 130155 is also cited as the Children and Families Act of 1998 (Act). Section 130125 specifically delineates the functions required of the Commission. The Bylaws are comprised of certain other provisions of the Act as well as eight additional operational procedures. The *2000-2001 Fiscal Year Objectives and Priorities* describes the Commission's plan in achieving its ultimate goal: To support and promote children's healthy development and school readiness. This document also explains the five objectives and 29 actions to be taken by the Commission relating to the goal.

We prioritized the core documents based on the adoption date. The Code was the first document available to the Commission. Therefore, we concluded that the functions and provisions of the Code were the first priorities of the Commission. Section 130125 of the Code, subsections (a) through (j), describes the ten functions that the Commission is mandated to perform. Functions are defined as the assigned duties to carry out the intentions of the Act. All functions are to be performed on an ongoing basis. We also reviewed the Commission's compliance with the Bylaws, which were adopted at a later date. Since, the *Objectives and Priorities* were recently developed, we anticipated little or no actions taken as far as the Commission achieving its goal and objectives. However, we have included comments on the progress of and implementation towards the achievement of the goal and objectives. The functions, other provisions of the Act and Bylaws, and the goal and objectives are individually analyzed and discussed in this report.

To assess the Commission's status in regards to its compliance with the functions, and other provisions of the Act and Bylaws, a closed-ended questionnaire was developed. The questionnaire consisted of a total of 34 questions that were derived from the Health and Safety Code Sections 130100-13155 and the Bylaws. All answers provided were verified through various source documents: Commission meeting minutes, Results to be Achieved Document, articles on best practices, the audit report for fiscal year 1998-99, county strategic plans, invoices, the Commission's website (<http://www.cafc.ca.gov>), and interviews with program, legal, and fiscal staff. Based on the information obtained from the test of compliance, we analyzed the extent of completion of the functions and other provisions of the Act and Bylaws.

In determining the status of the Commission's goal and objectives, we developed a questionnaire that was based on the *2000-2001 Fiscal Year Objectives and Priorities*. This questionnaire was designed to identify the status of the Commission's performance and progress towards accomplishing the actions associated with attaining each of the five objectives. An action is defined as the steps taken to achieve the objectives. The responses to the questionnaire were then analyzed and verified against pertinent documents and materials. From this point, we verified whether the action taken by the Commission was within the scope of each objective. Finally, we concluded on whether each objective was related to the goal.

Based on the responses provided on the Goal and Objectives Questionnaire, we concluded that most actions were achieved by entering into a contract. Therefore, we developed the following criterion to measure the completion of each action. This criterion was used only to measure the completion of the action, not to measure the achievement of an objective.

#### **MEASUREMENT OF ACTION COMPLETION TABLE**

<b>Contract stage</b>	<b>% Of Completion</b>
Entered into contract – expires November 2000	90%
Entered into contract – expires June 2001	80%
Entered into contract – expires June 2002	70%
Proposal Approved by the Commission/ No contract signed	60%
Proposal presented/ No Commission approval	30%
Internal Discussion/Study and Research	10%



# REVIEW OF FUNCTIONS—HEALTH AND SAFETY CODE SECTION 130125

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As discussed in the Scope and Methodology section of this report – while the functions, other provisions of the Act and Bylaws, and the goal and objectives are all inter-related, we applied auditing procedures to each of the three programmatic areas, individually, without linkage to the other program activities and determined compliance with the laws and regulations. We then considered the relationship to ensure all efforts were within the scope of the Act.

## **Background**

As set forth by the Health and Safety Code Section 130125, subsections (a) through (j), the Commission has the power and duty to perform the following functions:

1. Provide statewide dissemination of public information and educational materials.
2. Adopt guidelines for an integrated and comprehensive statewide program, conduct at least one public hearing before they are adopted and on at least an annual basis, periodically review its adopted guidelines and revise them as necessary.
3. Define the results to be achieved by the adopted guidelines, and collect and analyze data to measure progress towards attaining such results.
4. Provide for independent research to identify the best standards and practices.
5. Solicit input regarding program policy and direction.
6. Provide technical assistance to county commissions.
7. Review and consider the annual audits and reports transmitted by the county commissions.
8. Apply for gifts, grants, donations and contributions.
9. Enter into contracts to carry out the provisions and purposes of the Act.
10. Make recommendations to the Governor and the Legislature.

## **Audit Results**

Of the ten functions mentioned above, the Commission complied with five. The Commission has performed and is continuously performing the following functions:

- Function 1: Providing dissemination of public information/educational materials
- Function 2: Adopting guidelines
- Function 5: Soliciting input
- Function 6: Providing technical assistance
- Function 9: Entering into contracts

The remaining five functions have not yet been completed, but the Commission has performed some aspects of the functions. These functions are currently in the development stages.

- **Function 3: Define results to be achieved**

The Commission developed the Results to be Achieved Document as of March 2000. Pursuant to the Act, the Commission shall collect and analyze data to measure progress towards attaining results. However, it is too early to obtain such data to provide output on the performance of the results. The Commission has proposed to start a pilot program next year to establish which indicators to use and to develop data collection tools for these indicators. On September 21, 2000, a contract was approved by the Commission to perform a study of the results to be achieved. This contract would encompass the testing of the effectiveness and reasonableness of its outcome measures and indicators, and develop appropriate data collection tools.

- **Function 4: Independent Research**

California Center for Health Improvement, a private entity, has made publications available on best practices and standards to county commissions. However, the Commission is responsible for providing independent research, including the evaluation of any relevant programs, identifying the best standards of practices for optimal early childhood development, and establishing and monitoring demonstration projects. The Commission recently hired a Research Director to perform the independent research function.

- **Function 7: Annual Audit and Reports**

On or before October 15, each county commission must conduct an audit and submit a written report. Because most county commissions were still in the implementation stage, most submitted only status updates rather than audit reports for the period January 1, 1999 through June 30, 1999.

- **Function 8: Apply for gifts, grants, donations**

The Commission applied for support from the Packard Foundation and the California Endowment and received it in the form of services and monies. Although the Commission did perform its prescribed function, it did not appropriately report this gift as required by State law. Refer to the financial report for discussion.

- **Function 10: Recommendations to Governor/Legislature**

The Commission has made many recommendations to the Governor and the Legislature for changes in State laws, regulations, and services. However, policy papers on programs of early childhood development have not yet been prepared because more research is necessary.

# REVIEW OF THE ACT AND ADOPTED BYLAWS

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As discussed in the Scope and Methodology section of this report – while the functions, other provisions of the Act and Bylaws, and the goal and objectives are all inter-related, we applied auditing procedures to each of the three programmatic areas, individually, without linkage to the other program activities and determined compliance with the laws and regulations. We then considered the relationship to ensure all efforts were within the scope of the Act.

In addition to its statutory functions pursuant to the Health and Safety Code Section 130125, the Commission must comply with other provisions stated in the Act. Of the nine compliance issues identified in the Act, we determined that the Commission was in compliance with the following six:

- Set up a trust fund known as the California Children and Families Trust Fund.
- Establish a Commission composed of seven voting members and two ex officio members.
- Hire an executive director within three months after a majority of its voting members have been appointed.
- Hire professional staff employees who are exempt from civil service.
- Not compensate voting members of the Commission, other than for reasonable per diem and reimbursement of reasonable expenses.
- Establish one or more advisory committees to provide technical and professional expertise and support for any purpose that would be beneficial in accomplishing the purpose of the Act.

The Commission was not in compliance with the following three:

- Not distribute funds to county commissions who lack submission of an adopted strategic plan after July 1, 2000 (Monies were distributed to one County before its strategic plan was adopted.)
- Conduct an audit of, and issue a written report on the implementation and performance of, its respective functions, including the progress toward, and achievement of program goal and objectives, and the measurement of specific outcomes through appropriate reliable indicators by October 15 (Because the Commission and most county commissions were still in the implementation stage most submitted only status updates, rather than audit reports.)
- Prepare a written report that consolidates, summarizes, analyzes, and comments on the annual audits and reports submitted by all the county commissions. It must be transmitted to the Governor, Legislature, and each county commission by January 31 (The report was submitted to the Governor, the Legislature, and each county commission on February 29, 2000.)

In addition to the Act, the adopted Bylaws also have requirements the Commission must abide by. The Commission has successfully satisfied all provisions of the eight Bylaws, which require that:

- The Commission's principal office be located in Sacramento.
- The Commission members file Statements of Economic Interest.
- If it issues advisory opinions, these be made public ten days in advance of taking action.
- The chair presides at all meetings.
- Meetings be held on a regular basis at a time and place to be specified by a vote of the Commission.
- All meetings of the board be open and public and conform to the Bagley-Keene Open Meeting Act.
- Notices to the meeting be posted at least ten days prior to the time of the meeting.
- Debates and proceeding shall be conducted in accordance with Robert's Rules of Order when not in conflict with rules of the Commission and other statutory requirements.

# REVIEW OF GOAL AND OBJECTIVES

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As discussed in the Scope and Methodology section of this report – while the functions, other provisions of the Act and Bylaws, and the goal and objectives are all inter-related, we applied auditing procedures to each of the three programmatic areas, individually, without linkage to the other program activities and determined compliance with the laws and regulations. We then considered the relationship to ensure all efforts were within the scope of the Act.

## Background

To accomplish the intent of the Act, the Commission adopted *2000-2001 Fiscal Year Objectives and Priorities* on July 20, 2000, documenting its goal and objectives. The Commission's goal is to support and promote children's healthy development and school readiness. The following five areas are the objectives to realize the goal of the Commission:

- Change public awareness through public education and media outreach.
- Improve the quality and accessibility of programs through statewide capacity and infrastructure development.
- Improve the quality and accessibility of programs through innovative approaches/partnerships and demonstrations/pilot programs.
- Evaluate results through research and evaluation.
- Improve public policy.

## Audit Results

Appendix A lists the actions taken to achieve each of the five Commission's objectives. It lists: (1) whether the scope of the action is related to the objective, and (2) our assessment of the extent of completion of each action, based on the Measurement of Action Completion Table on page 27. This criterion was used only to measure the completion of the action, not to measure the achievement of an objective. Of the 29 actions, we determined the following:

- 2 actions are 90% complete
- 3 actions are 80% complete
- 8 actions are 70% complete
- 7 actions are 60% complete
- 1 action is 30% complete
- 8 actions are 10% complete

We found that all actions were related to an objective. Although the Commission has defined its goal and objectives and is taking actions to achieve them, those objectives should be more specific, measurable, and time-based. In the *Strategic Planning Guidelines* published by the Department of Finance (May 1998), objectives are defined as:

“Specific and measurable targets for accomplishment of a goal. They mark interim steps toward achieving an agency’s long-term mission and goals. Linked directly to agency goals, objectives are measurable, time-based statements of intent. They emphasize the results of agency actions at the end of a specific time.”

It is recommended that a desired result be visible after three or more years. Because the Commission’s current objectives are too broad and too indistinct, we could not measure the achievement of the desired results.

In Appendix B, we related each objective to the functions required by the Act. All objectives did relate.

## CONCLUSION

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The Commission is still in its developmental stage. In addition to establishing the internal structure of the Commission (for example, finding office space and hiring employees), it concentrated on performing its mandated functions and other provisions of the Act. We found that the Commission carried out half of its functions and complied with six of the nine other provisions. The remaining activities have been performed to some level, but additional development is required. For example, the county commissions are in the early stages of implementation and are unable to provide reportable data. This restricts the Commission in meeting the requirement of collecting and analyzing data to measure progress towards attaining results that are defined to be achieved. Furthermore, the Commission has not developed specific, measurable, time-based objectives. Since the Commission is fairly new, it is in the preliminary phases of performing certain functions. These functions include providing for independent research and making recommendations to the Governor and Legislature. Consequently, these functions require additional assessment at a later stage. Therefore, the Commission will need to continue performing its functions, and assessment should be performed on an annual basis.

The Bylaws are comprised of the requirements of the Act and additional operational procedures. We concluded that the Commission was fully meeting all Bylaw requirements and six of nine other provisions. Bylaws, in conjunction with the Act, enable the Commission to carry out its prescribed functions and the other provisions of the Act.

In the publication of the *2000-2001 Fiscal Year Objectives and Priorities*, the Commission defined its goal and related objectives. The actions taken by the Commission related to an objective, and each objective related to a function. The objectives were not specific, measurable, or time-based. Therefore, we make no conclusions regarding desired results, effectiveness, or the economy and efficiency of the objectives.

In conclusion, because there are no outcome indicators or measurable data available at this time, we are not able to express an opinion as to whether the Commission's actions and objectives are effectively attaining the Commission's goal. However, the Commission is currently researching and developing outcome indicators to measure the progress of the program as implemented by the State and county commissions. This information will provide for measurement of the progress towards satisfying the intentions of the Act. These indicators are planned to be measurable in two to three years.

While not specific, measurable, or time-based, the goal and objectives of the Commission are in line with the Act's provisions. The Commission continues to strive to perform effectively and efficiently by performing within the scope of its prescribed functions and stated objectives.

## APPENDICES

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## COMMISSION RESPONSE

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